

# PRESS RELEASE

CORPORATE MEDIA RELATIONS

## Net Income Close to Record Second Quarter of 1998

- **Sales** : EUR 3.7 billion, up 27%  
(NLG 8.2 billion, GBP 2.4 billion, USD 3.9 billion)
- **Operating income** : EUR 379 million, up 14%  
(NLG 835 million, GBP 248 million, USD 400 million)
- **Net income** : EUR 217 million (1998: EUR 219 million)
- **Net income per share** : EUR 0.76 (second quarter 1998: EUR 0.77)
- **Financial ratios improved** : Gearing ratio 1.92 from 2.39, interest coverage at 5.3
- **Outlook** : Full-year net income expected to reach same order of magnitude as 1998<sup>1</sup>
- **Divestments** : Contract with PPG Industries on sale of PRC-DeSoto at end of July, completing the divestment program of former Courtaulds activities
- **Pharma** : Organon and Organon Teknika major growth Drivers; acquisition of Kanebo and Gellini/Nuova ICC further enhancing growth potential
- **Coatings** : Acquisitions enhancing earnings
- **Chemicals** : Strong performance sustained
- **Acordis** : Holding up despite textile cycle

## Commenting on the results Fritz Fröhlich, Chief Financial Officer of the Company, said:

***“Our results in the second quarter show improvement with net income approaching that of the record second quarter of 1998, despite higher financing charges. Sales were up 27 percent and operating income increased by 14 percent. Pharma continued to be the star performer, delivering 18 percent growth. Coatings is clearly in the leading market position worldwide. Sales were up 36 percent due largely to the successful acquisitions we completed during 1998 and operating income rose 28 percent. Chemicals sustained their strong performance and exceeded their record second quarter of 1998 with sales up 7 percent and operating income up 2 percent. Acordis continued to deliver a positive contribution despite the severe impact of the textile cycle.”***

***“The half year was in line with our expectations, coming in slightly behind the strong first half of 1998. Sales were up 25 percent and operating income increased by 13 percent. Assuming no major changes in economic growth and currencies, we now expect full-year earnings —excluding nonrecurring items— to reach the same order of magnitude as in 1998.”***

---

<sup>1</sup> Assuming no major changes in economic growth and currencies and excluding nonrecurring items.

## Strong Growth – Earnings Increasing

Millions of euros

<u>Second quarter</u>				<u>January – June</u>		
<u>1999</u>	<u>1998</u>	<u>%</u>		<u>1999</u>	<u>1998</u>	<u>%</u>
<b>217</b>	219	<b>(1)</b>	Net income	<b>390</b>	405	<b>(4)</b>
<b>0.76</b>	0.77		Net income per share, in EUR	<b>1.37</b>	1.42	
<b>3,702</b>	2,913	<b>27</b>	Net sales	<b>7,125</b>	5,689	<b>25</b>
			Operating income:			
<b>137</b>	117	<b>17</b>	- Pharma	<b>262</b>	230	<b>14</b>
<b>160</b>	125	<b>28</b>	- Coatings	<b>248</b>	191	<b>30</b>
<b>86</b>	84	<b>2</b>	- Chemicals	<b>177</b>	172	<b>3</b>
<b>2</b>	15	<b>(87)</b>	- Acordis	<b>6</b>	32	<b>(81)</b>
<b>379</b>	332	<b>14</b>	- Total Akzo Nobel	<b>690</b>	612	<b>13</b>
<b>10.2</b>	11.4		Return on sales	<b>9.7</b>	10.8	
			Number of employees:			
			- at end of 2 <sup>nd</sup> quarter 1999	<b>85.300</b>		
			- at year-end 1998		85.900	

## Net Income Close to Record Second Quarter of 1998

Arnhem, the Netherlands, July 28, 1999. - At EUR 217 million, second-quarter net income was 1 percent under the prior year. Increased contributions from Pharma, Coatings, and Chemicals almost offset higher financing charges, resulting from last year's acquisitions, and lower earnings from the Textile Fibers activities of Acordis. Net income per share amounted to EUR 0.76, compared with EUR 0.77 in the second quarter of last year. Net income for the half year aggregated EUR 390 million, against EUR 405 million in the corresponding period of 1998. Net income per share for the half year was EUR 1.37, against EUR 1.42 in 1998.

"Our results in the second quarter show improvement with net income approaching that of the record second quarter of 1998, despite higher financing charges. Sales were up 27 percent and operating income increased by 14 percent," said Fritz Fröhlich, Akzo Nobel's Chief Financial Officer.

“Pharma continued to be the star performer, with 18 percent growth. Coatings is clearly in the leading market position worldwide. Sales were up 36 percent due largely to the successful acquisitions we completed during 1998 and operating income rose 28 percent. Chemicals sustained their strong performance and exceeded their record second quarter of 1998 with sales up 7 percent and operating income up 2 percent. Acordis continued to deliver a positive contribution despite the severe impact of the textile cycle” said Mr. Fröhlich.

In terms of the first six months of 1999 and the outlook for the full year, Mr. Fröhlich stated: “The half year was in line with our expectations, coming in slightly behind the strong first half of 1998. Sales were up 25 percent and operating income increased by 13 percent. Assuming no major changes in economic growth and currencies we now expect full-year earnings —excluding nonrecurring items— to reach the same order of magnitude as in 1998.”

### **Sales and operating income boosted by acquisitions and driven by Pharma**

**Sales** of EUR 3.7 billion were up 27 percent from the 1998 second-quarter level. Acquisitions (principally Courtaulds) caused an increase of 25 percent. Volumes were 3 percent higher, with average selling prices down by 1 percent. Currency translations, on balance, had no effect.

Sales in the first half-year of 1999 were EUR 7.1 billion, up 25 percent.

Second-quarter **operating income** increased by 14 percent to EUR 379 million. Acquisitions contributed 13 percent, while currency changes, on balance, had no effect. Higher Pharma results were partially offset by lower earnings from Acordis' Textile Fibers operations.

Operating income for the first six months grew 13 percent to EUR 690 million.

**Return on sales** was 10.2 percent, against 11.4 percent in the prior year second quarter, mainly reflecting the changed portfolio mix after last year's acquisitions. For January-June the corresponding figures were 9.7 percent and 10.8 percent.

### **Pharma**

**Second quarter net sales: EUR 685 million (1998: EUR 579 million)**

- **Healthy double-digit growth continues**
- **Organon and Organon Teknika major growth drivers**
- **Unbroken sales boost – particularly in the United States**

Pharma's second-quarter sales increased 18 percent and operating income 17 percent. Organon and Organon Teknika were the main contributors to this strong performance.

Organon again achieved significant volume growth for Remeron®, Puregon®, oral contraceptives, and Livial®. The internal growth strategy of further expanding its R&D program and sales force continues to deliver an unbroken sales boost, especially in

the United States. Organon Teknika achieved higher sales volumes, especially for Norcuron® and Esmeron®/Zemuron®. Intervet also realized healthy earnings growth.

### **Coatings**

***Second quarter net sales: EUR 1,502 million (1998: EUR 1,107 million)***

- **Acquisitions enhancing earnings**
- **Higher volumes in Decorative Coatings**
- **Industrial business still soft, showing improvement in Asia**

Coatings sales were up 36 percent in the second quarter, largely due to acquisitions. Operating income rose 28 percent.

Decorative Coatings realized earnings growth as a consequence of higher sales volumes in Western Europe and cost savings. Car Refinishes benefited from lower raw material prices and cost control measures. The industrial activities are still hampered by soft market conditions, especially in Eastern Europe. The industrial business in Asia is gradually picking up. Marine & Protective Coatings' markets in Europe and North America remained weak, whereas Asia Pacific showed a strong improvement.

### **Chemicals**

***Second quarter net sales: EUR 932 million (1998: EUR 869 million)***

- **Strong performance sustained**
- **Record operating income**
- **Bleaching chemicals North America still suffering with pulp market**

Chemicals was able to achieve an operating income that exceeded the record second quarter of 1998. Sales increased 7 percent.

Polymer Chemicals continued its strong performance. Surface Chemistry also improved, aided by higher sales volumes, particularly in the United States. Catalysts results were up, reflecting volume increases for both fluid-cracking and hydroprocessing catalysts. Energy benefited from the favorable start up of the Delesto 2 cogeneration plant. Functional Chemicals did not match last year's strong second quarter because of somewhat lower sales volumes. Pulp & Paper Chemicals still feels the negative impact of the depressed market situation for bleaching chemicals in North America.

### **Acordis**

***Second quarter net sales: EUR 577 million (1998: EUR 376 million)***

- **Holding up despite textile cycle**
- **Restructuring remains key focus**
- **Spin-off preparation on track**

The strong cyclical downturn of the textile fiber industry continued to cause a significant decline in earnings. Nevertheless, Acordis managed to close the quarter in

the black. The acquisition of Courtaulds led to a EUR 220 million increase in Acordis' second-quarter sales.

Viscose Filament and Acetate Yarns felt the biggest impact of the downturn. Tencel® results were better, aided by an increase in demand. Industrial Fibers' results were up, especially due to the good performance of Airbag Yarns. Colbond made further progress with improved performances, notably in the United States and Asia.

In order to ensure structural profitability for Acordis, major capacity reductions and cost saving measures are being implemented, especially in the area of commodity textile fibers. Once definite measures have been decided upon later this year, significant nonrecurring charges will be reported.

The preparations for the spin-off of Acordis are progressing well.

### **Higher interest charges as a consequence of acquisitions**

The increase in financing charges from EUR 30 million in the second quarter of 1998 to EUR 71 million in 1999 was almost entirely caused by interest on debt assumed in the context of last year's acquisitions.

### **Nonconsolidated companies – Improved results**

At EUR 13 million, second-quarter earnings from nonconsolidated companies slightly exceeded the prior year figure, mainly due to Flexsys.

### **Significant reduction of investment authorizations**

In connection with stated intentions with respect to our year of consolidation, investment authorizations in the first six months of 1999 were reduced to EUR 215 million, significantly below last year (EUR 435 million). Expenditures for property, plant and equipment increased to EUR 362 million (1998: EUR 302 million), mainly as a consequence of last year's acquisitions and investment programs at Pharma. Expenditures were virtually equal to the depreciation charge of EUR 360 million.

### **Courtaulds-related divestment program completed**

PRC-DeSoto —the former Courtaulds Aerospace Coatings and Sealants business— will be divested to PPG Industries at the end of July 1999, subject to regulatory approval. This will complete the divestment program connected with the Courtaulds acquisition. Total divestment proceeds will amount to more than EUR 1.0 billion.

### **Clear improvement of gearing and interest coverage**

The gearing ratio improved to 1.92 at June 30, 1999, compared to 2.39 at December 31, 1998. Interest coverage in the second quarter of 1999 was 5.3.

### **Personnel reductions due to divestments**

At June 30, 1999, the number of employees was 85,300, compared with 85,900 at the end of 1998. Acquisitions added 900, while divestments caused a decrease of 1,200. Headcount increases at Pharma did not offset reductions at Acordis and various central service units.

### **Outlook**

In line with our expectations, the first half of 1999 was somewhat weaker than the strong corresponding period of 1998. Assuming no major changes in economic growth and currencies, we now expect full-year earnings —excluding nonrecurring items— to reach the same order of magnitude as in 1998.

- - -

Akzo Nobel, based in the Netherlands, serves customers throughout the world with healthcare products, coatings, chemicals and fibers. The fibers business, now known as Acordis, will be demerged. The company currently employs approximately 85,000 people in almost 70 countries. As of 1999, the euro is Akzo Nobel's external reporting currency. Consolidated sales for 1998 totaled EUR 12.5 billion (USD 13.8 billion). Financial results for the third quarter of 1999 will be announced on October 27.

### **For information please contact:**

Akzo Nobel N.V.

John Jennings, Corporate Media Relations, tel. +31 26 366 4343

### **Additional Information / not for publication**

Akzo Nobel's second-quarter results presentation includes our Report for the 2<sup>nd</sup> Quarter of 1999 as well as the explanatory sheets used by the Chief Financial Officer during the press conference. These can be viewed on our Internet site at:

<http://www.akzonobel.com/finance/quarter.htm>